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April 17, 2007

AGENDA ITEM 10

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Healthcare Investment Initiative – Conflicts Policy
- II. PROGRAM:** CalPERS Total Fund
- III. RECOMMENDATION:** Approve the Inter-Program Conflict of Interest Protocol for the CalPERS Healthcare Investment Initiative
- IV. ANALYSIS:**

The Investment Office, through the Alternative Investment Management Program (AIM), proposed a new investment program, the Healthcare Investment Initiative (HII), to the Investment Committee at the February meeting. If the Board approves the HII, CalPERS will begin targeting investments in healthcare services and products in accordance with the program. The HII, however, may present potential conflicts of interests between the interests of the CalPERS pension and health plans.

In light of this possibility, the Investment Committee directed the Legal Office to draft an inter-program conflict of interest protocol (the "Protocol") to address potential conflicts that could arise with the implementation of the HII. The Legal Office, with the assistance of AIM and HBB, drafted the attached Protocol for the Health Benefits Committee's review and recommended approval to the Board.

The objective of the Protocol is to set forth an overall approach to the appropriate identification and management of inter-program conflicts. Specifically, the Protocol is designed to: (1) assure the appropriate identification of actual, potential, or perceived inter-program conflicts of interest; (2) establish a process for evaluating these conflicts to ensure that each decision is made in the best interest of the respective plan's participants; and (3) identify the decision makers. Staff believes that this Protocol addresses the critical need of managing inter-program conflicts.

Recommendation

Staff recommends that this Protocol be approved.

V. STRATEGIC PLAN:

CalPERS Strategic Plan Goal IV, provides that CalPERS will “assure that sufficient funds are available, first, to pay benefits and second, to minimize and stabilize employer contributions.”

VI. RESULTS/COSTS:

Implementation of this Protocol may result in the use of some additional staff resources. This will be offset by the value to the fund of taking steps to assure that CalPERS appropriately identifies and manages potential inter-program conflicts.

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